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INTELLIGENCE REPORT

THE SITUATION IN SOUTH VIETNAM

State, USAID reviews completed

DIRECTORATE OF INTELLIGENCE

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM
(19 September - 25 September 1966)

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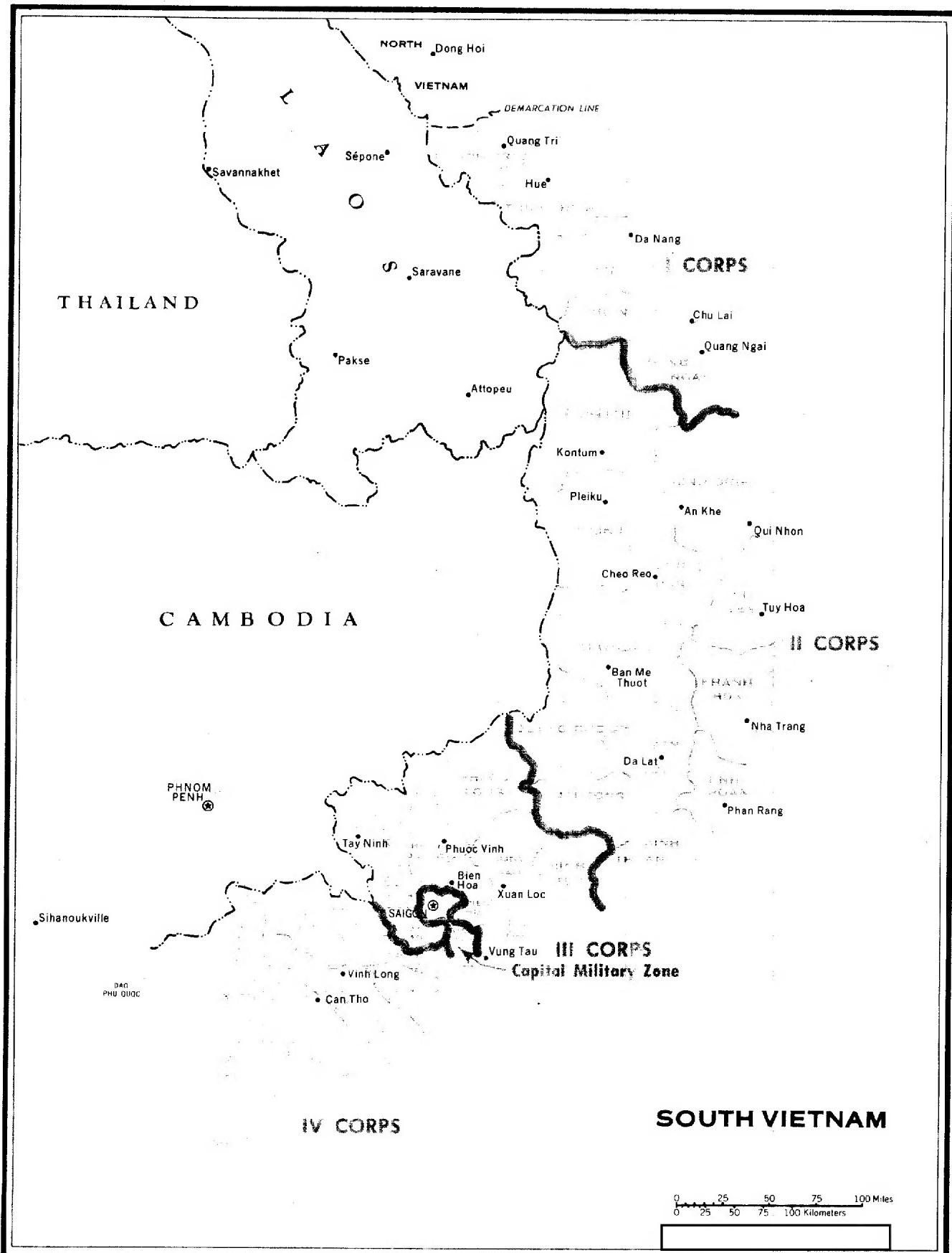
Prices; Currency and gold; Inflationary problems for 1967; US-GVN economic discussions; Uniform pay scale for Vietnamese hired by US; RMK-BRJ layoffs of Korean and Philippine nationals.

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I. POLITICAL SITUATION

Before it even begins drafting a constitution, South Vietnam's newly elected constituent assembly will face several significant problems soon after it convenes on 27 September. Thus far, military leaders have generally been careful not to provoke assembly delegates.

The Buddhist Institute leadership remains deadlocked, raising the possibility of a formal organizational split between moderate and militant Buddhists. Two French businessmen arrested on suspicion of financing antigovernment activities were released by the government last week. The membership of the government committee which is to study the cases of various political prisoners is still indefinite.

Problems Facing the Assembly

1. The newly elected constituent assembly will face several important political problems when it convenes on 27 September. The delegates may decide to give early consideration to the question of assuming a legislative function in addition to drafting a constitution, and to the issue of the government's current veto power over any draft constitution lacking a two-thirds majority in the assembly. At least one well-known southern politician, Tran Van Van, is attempting to capitalize on some delegates' latent ill feelings toward the military by organizing a bloc which would ensure that civilian interests prevail in the assembly's work.

2. Other leading delegates, however, are aware that an initial plunge by the assembly into these two delicate issues could seriously mar relations between the assembly and the military establishment, and that arriving at a meaningful balance of civilian and military interests in the constitution itself could consequently become a major problem. La Thanh Nghe, former Saigon city council president, and Dang Van Sung, well-known northern Dai Viet leader and publisher,

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have both indicated that they are advising other delegates against holding an early discussion of these two issues.

3. Another item which could exacerbate regional and other differences within the assembly itself is the election of an assembly president. Speculation on the likely winner is centering on five well-known politicians from the Saigon area, but no clear favorite has yet emerged. Tran Van Van, former Chief of State Phan Khac Suu, and the popular Dr. Phan Quang Dan are generally regarded as actively pursuing the nomination. La Thanh Nghe and Dang Van Sung are not openly interested in the post, but Nghe has been mentioned as the most likely compromise candidate in the event of a deadlock among the three front-runners.

4. Should a consensus fail to develop, however, the diverse interests represented by the delegates--especially regional differences--could be accentuated, and adversely affect the degree of harmony in the assembly. Southern influence, which has increased in Premier Ky's cabinet this year, is also strong in the assembly, and there are indications of some organizational efforts among southern delegates. The US Embassy has commented that it would be desirable that Tran Van Van not realize his ambition to become president, since regional feelings would only be sharpened under his leadership. Bui Diem, one of Premier Ky's closest advisers, has strongly implied that the government is attempting to influence the choice of either Phan Khac Suu or Phan Quang Dan as assembly president.

Government Attitudes Toward the Assembly

5. Thus far, the leaders of the military government have generally been careful not to alienate the assembly delegates. In a press conference on 16 September, Premier Ky declared that the government was reconsidering the question of the assembly's assuming a legislative function, but was quite firm on the necessity of the government's retaining its veto power.

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6. Chief of State Thieu, on the other hand, strongly favors a second election for a legislative lower house rather than extending the duties of the constituent assembly.

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Thieu is also thinking in terms of a popularly elected president who would not be directly responsible to the legislature. An appointed prime minister, however, would be subject to confirmation by a legislative upper house, which would be elected indirectly and would represent functional and religious groups. Thieu plans to send a message to the constituent assembly sometime after 1 November in which he will indicate only the general principles which the government feels should be included in the constitution.

7. In the meantime, military leaders apparently prefer to work quietly with assembly delegates on more detailed matters. At a recent meeting of military members of the Directorate, Secretary General Chieu and Information Minister General Tri were assigned primary responsibility for handling matters associated with the assembly. It was also understood that Premier Ky and Chief of State Thieu would be basically concerned with such matters. In addition, National Police Director Loan

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hoped to form "study groups" among the delegates in order to influence their attitudes regarding military interests in the drafting of the constitution.

Buddhist Institute Leadership Remains Deadlocked

8. According to all reports, moderate Buddhist Institute Chairman Tam Chau has made little headway in attempting to reassert his leadership over the institute council. Although at least a public show of unity between Tam Chau and the more militant Buddhists has not yet become impossible, the US Embassy has commented that a continuation of the present stalemate increases the chances of a formal organizational split between the two groups.

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10. Tri Quang, apparently well recovered from his three-month hunger strike, issued a communiqué on 22 September which urged the convening of an extraordinary congress of the Unified Buddhist Association. The communiqué was backed by the church's supreme aged patriarch, but it was not immediately clear whether Tam Chau would heed it. Chau may fear that his views would be overridden at such a session.

Detained French Businessmen Released

11. Philippe Grandjean and Abel Goxe, prominent members of the French business community in Saigon who had been arrested two weeks earlier on suspicion of financing antigovernment political groups, were released on 20 September. No charges were filed against them. [redacted] at least one of the two was to be released in return for his pledge to cooperate with the government security services in the future.

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Membership of Commission on Political Prisoners Still Indefinite

12. According to civilian Directorate member Tran Van An, the composition of the government committee which will study the cases of political prisoners--Catholic officials who have been in custody since the overthrow of the Diem regime and possibly some Buddhists jailed during the recent "struggle" movement--is still indefinite. Directorate Secretary General Chieu is in charge of organizing the committee, and will probably act as chairman. The finance and justice ministers and several Directorate members, including An, are other likely members. An said that he did not know when the committee would begin work, and knew of no plan to invite prominent Catholic or Buddhist leaders to participate.

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II. REVOLUTIONARY DEVELOPMENT

Reports continue to indicate that the environment for refugees often remains hostile after they are moved to areas of nominal government protection. In Quang Tin Province in the past eight months, 54 refugees have been killed by the Viet Cong and 363 resettlement homes have been destroyed. The daily influx of Chieu Hoi defectors has dropped off considerably in the last three and a half months even though the conditions that seem to have generated large numbers of them in the past continue to exist. Communist Party policy in regard to the redistribution and confiscation of land is outlined in a document obtained in Vinh Long Province.

Refugees

1. There is little doubt now that the refugee centers are high on the Viet Cong priority list of targets, along with Chieu Hoi centers and pacification cadres. In Quang Tin Province, for example, the Viet Cong have exacted reprisals against refugees on five occasions since January of this year. A total of 54 refugees have been killed, 97 have been wounded, and another 11 have been abducted. A hospital, a school, and 363 resettlement homes have been destroyed. The latest attack took place within the city limits of the province capital on 7 September. During that attack, 80 homes were destroyed, 565 refugees were left without shelter, and four of the occupants were killed.

2. Refugees are faced with a multitude of other difficulties as well. In one of the outlying districts in Tay Ninh Province, for instance, a severe windstorm recently caused the destruction of 21 resettlement homes and the death of two children. A refugee camp in Binh Tuy Province reported an overly high death rate and officials suspect a high incidence of typhoid as the cause of at least nine deaths.

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recently among the camp's 1000 inhabitants. Since the camp is not secure, a medical team had to be airlifted there.

3. As a result of a recent military action initiated by US troops in Long Khanh Province, some 350 peasants, many of them sick and undernourished, were escorted into one of the secure hamlets. There they were treated by a Philippine medical team and given emergency relief goods by GVN officials. They will be relocated to one of the refugee centers in the province.

Viet Cong Defectors (Chieu Hoi)

4. The returnee totals for the first two weeks of September are:

	<u>1-7 September</u>	<u>8-14 September</u>	
I Corps	23	I Corps	36
II Corps	39	II Corps	43
III Corps	57	III Corps	64
IV Corps	85	IV Corps	46
Total	<u>204</u> (142 military)	<u>189</u> (120 military)	

1966 total through 14 September: 12,665

1966 average per day: 49.3

Monthly totals since February and March 1966 have dwindled to the point where only 29 returnees per day were registered during the last three weekly reporting periods. Although the 1966 average is 49 returnees per day, this figure largely reflects the massive influx of defectors from February through April. Despite the continuing emphasis on the Chieu Hoi program, a relatively encouraging political situation and a sustained level of military activity, the number of defectors has decreased steadily for the last three and a half months.

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Viet Cong Land-Tenure Policy

5. A Viet Cong document recently acquired in Vinh Long Province and emanating from the "party" rather than the NFLSV sheds some light on enemy policies toward the distribution of land to the peasantry in their areas. According to the document, which appears to be designed as a standard guide for countrywide land reform policies, the end object of agrarian reform is to gain the support of the peasantry in order to implement the rural struggle. It lists the poor religious and refugee areas as the most favorable to infiltrate as a target audience.

6. Four basic principles are suggested: to decrease the amount of rent paid by the tenants; to confiscate only land owned by the GVN or by "cruel" landlords; to honor the land holdings of landlords who cooperate with the Viet Cong; and to protect the land holdings of medium-level owners, churches, and notables. When confiscated or expropriated lands are redistributed, they will be given to war victims, share-croppers, poor peasants, and middle-level farmers, in that order. Many peripheral aspects of land ownership were also discussed, including the provision of loans, credits, and agricultural equipment ("buffaloes" and "seeds").

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III. ECONOMIC SITUATION

Saigon retail prices, which had shot up 16 percent over the election weekend as the Viet Cong disrupted the movement of food into the capital, started to fall immediately after the elections as shipments were resumed. By 19 September, the overall retail price index was down 6 percent. Although the prices of rice did not share in the fluctuations of the election weekend, there is growing concern about the reduced volume of rice deliveries to Saigon.

The latest analysis of the impact of US and GVN economic programs for 1965 indicates that they will be too inflationary; programs will have to be scaled down or additional means found to absorb purchasing power. The second US-GVN economic meeting discussed several topics related to control of inflation and planning for 1967. The uniform pay and classification system for Vietnamese employees of US agencies and contractors has met with an adverse reaction from the Minister of Economy. The discharge of Korean and Philippine nationals as part of the reduction of work force by the RMK-BRJ construction consortium created the two-headed problem of adverse reactions if the workers are shipped home and a shortage of staff and funds to care for them until other jobs can be found in Vietnam.

Prices

1. The sharp climb of Saigon food prices, resulting from widespread Viet Cong harassment of movements of food supplies to the capital over the election weekend, ended this week as expected. Prices began to fall immediately after the election as transportation into the capital improved. Between 12 and 16 September, the USAID index fell by five percent, with the food price index declining by six percent. Hog bellies were 140

[redacted]

piasters per kilogram on 16 September, a 23-percent decline in four days, but the price was still 75 percent above the 6 September level. Food prices continued to decline but more slowly in the next few days, and by 19 September the food index was down by seven percent and the over-all retail price index declined six percent from the previous week. Prices of meat, fish, and poultry were still somewhat above the levels preceding the elections, however. Vegetable prices in particular remained high or continued to rise because the Viet Cong kept the road to Da Lat closed. (A table of weekly retail prices in Saigon is included in the Annex.)

2. The price of rice remained steady over the past several weeks, in contrast to prices of other foods, and at a level below that of July and early August. Rice imports, sales from official stocks, and other activities of the Government of Vietnam have been responsible for keeping these prices steady. The low price level, however, has been an important factor in restricting deliveries to Saigon. Large stocks are believed held by delta speculators who are awaiting a better price before selling. The minister of economy met with rice merchants several times during the 7 to 17 September period in an effort to accelerate the movement of rice to urban consumers. These talks resulted in sales offers of only 14,000 tons from provincial rice dealers--at prices nearly ten percent higher than the current market price; the minister of economy has not accepted the offers so far. The Government of Vietnam is thus faced with a dilemma: since rice constitutes a very substantial part of the diet, any increase in its price will be felt by everybody and will aggravate the pressures for higher wages and complicate inflation control, but if the price of rice remains low, supplies may not be adequate to meet demand. A joint GVN-US rice committee has been established, and the US Mission has been conducting its own rice study (interim findings are expected in a week or so) to find ways out of the dilemma.

3. Prices of imported commodities remained unchanged or declined slightly during the week ending 20 September.

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Currency and Gold

4. Rates remained essentially unchanged during the week. On 19 September, the price for dollars was 169 (down one piaster per dollar), the price for Military Payment Certificates (MPC) was 115 (unchanged), and the price for gold was 252 (unchanged). The piaster-dollar rate in Hong Kong (essentially a black-market rate since the Government of Vietnam permits travelers to bring in or carry out only 500 piasters in banknotes) had fallen from 172 to 168 piasters per dollar. If rates for gold and US banknotes are largely a reflection of efforts of wealthy Vietnamese to convert their wealth into a safe form, as some observers believe, the election on 10 September had no appreciable effect on Vietnamese confidence in the piaster.

Inflationary Problems for 1967

5. The latest assessment of GVN and US programs for calendar year 1967 indicate too great an inflationary push on Vietnam's fragile economy to be consistent with US stabilization objectives. An inflationary gap (the net effect of the GVN budget, US aid, and other factors affecting the demand for resources and purchasing power) of about 44 billion piasters results from the estimates of programs and activities presently planned for 1967. The estimated inflationary gap for calendar year 1966 is about 35 billion piasters, and a gap in 1967 of about 10 billion piasters has been considered safe.

6. US and GVN officials are now confronted with the difficult task of paring down programs and increasing the absorption of purchasing power in South Vietnam. The measures the US is stressing to Vietnamese officials include an increase of GVN tax collections, adoption of steps to improve the flow of imports into the economy, and policies to hold down the expansion of credit. The US finds it particularly objectionable that GVN foreign exchange reserves are tending to enlarge as US-financed imports increase. Means of reducing the inflationary gap will be discussed during the current visit to Washington of Minister of Economy and Finance Thanh and Governor of the National Bank Hanh.

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US-GVN Economic Discussions

7. The second of a series of thrice-monthly Vietnamese-American economic discussions was held on 13 September. It was co-chaired by Minister of Economy and Finance Thanh and US Deputy Ambassador Porter, and was attended by several high officials and some of their staffs. The agenda covered a wide range of topics, some of which were broad with many subordinate points while others were quite specific, such as the need to increase shipments of clinker to Saigon from the Ha Tien cement plant. Some of the Vietnamese points appeared to reflect concern about infringement of their sovereignty, an aspect present in the previous meeting also.

8. Minister Thanh again raised the port problem, blaming the slow withdrawal of goods by importers from port warehouses on inadequate equipment and poor stevedoring practices and warehouse management. Mr. Porter, citing examples of importers finding and moving their commodities when it was in their interest to do so, placed part of the blame on the practice of importers finding buyers before locating and withdrawing goods from the port warehouses. Minister Thanh responded that a recent decree authorizing the confiscation of goods left in the port beyond 30 days was being applied to force importers to remove their goods. In case of confiscation, these goods would not be sold but would be turned over to the appropriate ministries, which the US side thought would create difficulties in the case of items not easily used by government offices. Implicit in the discussion was the concern by both sides to accelerate the movement of imports into the economy as an integral part of the anti-inflation program. Port congestion has been one of the bottlenecks to a larger flow of imports. This part of the discussion ended with the distribution of a recent MACV study on means of expediting commercial cargos through the port of Saigon.

9. The US side presented its preliminary estimates of GVN tax revenues as part of a discussion on the need of the GVN for greater revenues in the fight against inflation. Minister Thanh

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[redacted]

voiced his view that the GVN had to improve collection rather than create more tax laws. Deputy Ambassador Porter repeated offers of US assistance to develop a better collection program, and the US participants were hopeful that Minister Thanh and Secretary of State for Finance Kien would finally assign their staffs to developing a practical collection plan. Minister Thanh requested US estimates on the inflationary pressures in 1967, and the US side agreed to provide the data. The US suggested that a report on GVN progress toward liberalization of imports, as part of the anti-inflation program, be made by the GVN economic delegation during their visit to Washington. A number of additional discussion topics concerned US and GVN efforts to control inflation.

Uniform Pay Scale for Vietnamese Hired by US

10. Implementation of the single pay and classification system for Vietnamese employees of US agencies and contractors, recently approved by the Mission Council, is being held in abeyance pending further discussion with Minister of Economy and Finance Thanh. Thanh's initial response was that while this measure was the US's own business, he thought that it would stimulate wage demands by various groups of workers and thus act against US-GVN stabilization efforts. Further discussions will be held with Thanh prior to the proposed adoption date of 1 November.

RMK-BRJ Layoffs of Korean and Philippine Nationals

11. The cutback in the work force by the RMK-BRJ construction consortium will result in the discharge of a substantial number of third-country nationals. The practical problem is the repercussion expected from the layoff of perhaps 500 Koreans and 500 Filipinos. RMK-BRJ established recruiting offices in Korea and the Philippines with both the blessing of the governments involved and widespread publicity about the opportunities to work in Vietnam. The unexpected discharge of some of these workers presents political problems in Korea and potentially in the Philippines as well. In order to avoid sending these workers back to their native lands, efforts

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are being made to find other employment in Vietnam. These efforts so far have not had much success. One stumbling block is the care of the discharged workers before their subsequent re-employment. RMK-BRJ has agreed to administrative leave instead of immediate repatriation, but apparently the worker's pay stops with the layoff and provision for severance pay also appears lacking under the present circumstances. The Korean and Philippine embassies do not appear to have the money or staffs to take care of their nationals while other jobs are sought. Discussions to ease the impact from the layoffs are being conducted in Washington, Seoul, Manila, and Saigon.

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ANNEX

TABLE

Weekly Retail Prices in Saigon a/

	3 Jan. 1966	22 Aug. 1966	29 Aug. 1966	6 Sept. 1966	12 Sept. 1966	% Change from Month Ago	% Change from Year Ago	(In Piasters)
Index for All Items <u>b/</u>	<u>160</u>	<u>206</u>	<u>215</u>	<u>211</u>	<u>242</u>	<u>+15</u>	<u>+102</u>	
Index for Food Items <u>b/</u>	<u>169</u>	<u>211</u>	<u>222</u>	<u>215</u>	<u>264</u>	<u>+19</u>	<u>+105</u>	
Of Which:								
Rice-Soc Nau (100 kg.)	800	1,400	1,350	1,300	1,300	-10	+ 44	
Pork Bellies (1 kg.)	70	85	85	80	180	+80	+177	
Fish-Ca Tre (1 kg.)	110	160	180	170	220	+29	+175	
Nuoc Mam (jar)	50	85	85	85	85	0	+ 70	
Index for Non-Food Items <u>b/</u>	<u>124</u>	<u>189</u>	<u>191</u>	<u>196</u>	<u>198</u>	<u>+ 2</u>	<u>+ 93</u>	
Of Which:								
Charcoal (60 kg.)	440	590	620	660	660	+10	+ 74	
Cigarettes (pack)	10	14	14	14	14	0	+ 40	
White Calico (meter)	27	36	33	33	34	- 8	+ 42	
Laundry Soap (1 kg.)	30	43	40	40	40	- 7	+ 90	

a/ Data are from USAID sources.b/ For all indexes, 1 January 1965 = 100.~~SECRET~~

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